

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 20 – SB 1319**

March 5, 2021

**SUMMARY OF BILL:** Increases, from \$4,500 to \$9,000, the franchise and excise job tax credit offered to businesses that create at least 10 jobs in tier three or tier four enhancement counties with no more than 50,000 in population. Decreases, from \$500,000 to \$250,000, the minimum capital investment for eligibility to receive the job tax credit, if the applicant creates a minimum of 10 jobs in tier three or tier four enhancement counties with no more than 50,000 in population.

Creates a franchise tax credit equal to 100 percent of the franchise tax imposed on businesses that meet the following criteria in a tier three or tier four enhancement county with no more than 50,000 in population:

- A minimum capital investment of \$5,000,000.
- At least 100 jobs that pay at least \$15 per hour.
- Offer minimum health insurance to employees and pay 80 percent of the premium.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Exceeds \$5,040,000/FY21-22 and Subsequent Years**

**Other Fiscal Impact – The amount of foregone revenue associated with franchise tax credits that are determined to be in the best interest of the state cannot be quantified with reasonable certainty.**

Assumptions:

- According to Department of Revenue (DOR), \$5,600,000 in Job Tax Credits were provided in tier 3 and tier 4 enhancement counties with populations less than 50,000 in 2019.
- Doubling the credit, from \$4,500 to \$9,000 will double the amount of credits being awarded; therefore, the recurring decrease in state revenue is estimated to be \$5,600,000.
- Furthermore, lowering the minimum capital investment threshold from \$500,000 to \$250,000 is estimated to increase the credits awarded to companies by approximately 25 percent or \$2,800,000  $[(\$5,600,000 \times 2) \times 25\%]$ .
- According to the DOR, businesses statewide are able to claim on average approximately 60 percent of their total awarded credits in any given year; therefore, the decrease in state revenue is estimated to be \$5,040,000  $[(\$5,600,000 + \$2,800,000) \times 60\%]$  in FY21-22 and subsequent years.

- The combined franchise tax liabilities of companies with at least 100 employees with an hourly wage of at least \$15 per hour, who have made at least a \$5,000,000 capital investment, and who offer minimum health insurance to their employees in tier three or tier four counties with populations less than 50,000 is estimated to be \$4,600,000. Tax credits against this franchise tax liability could be claimed for up to 20 years under the proposed legislation.
- However, the credits provided to these companies are only to be given if determined to be in the “best interest of the state”. “Best interest of the state”, as defined in Tenn. Code Ann § 67-4-2109(a)(1), means a determination by the Commissioner of DOR and the Commissioner of Economic and Community Development (ECD) that the capital investment or jobs are a result of the tax credit provided in this section.
- Utilization of such credits would represent a decrease in state revenue if the credits are utilized by companies with existing franchise tax liabilities in this state. If the credits are utilized by companies that currently do not have existing franchise tax liabilities in the state, the fiscal impact would be considered foregone state revenue. In addition, capital investments and creation of qualifying jobs resulting from the provision of the franchise tax credits, as determined by the Commissioners of DOR and ECD, will likely result in increased excise tax liabilities in the state.
- Due to multiple unknown variables, the net impact on current tax liabilities and the amount of foregone state revenue cannot be quantified with reasonable certainty. The total decrease in state revenue is estimated to exceed \$5,040,000.
- Secondary economic impacts may occur as a result of this legislation and increased business activity in tier three and tier four enhancement counties.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Bojan Savic, Interim Executive Director

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